



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 1, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Walker
Charter Number 8476

P.O. Box 520
Walker, MN 56484

Office of the Comptroller of the Currency

MINNEAPOLIS Field Office
222 South Ninth Street Suite 800
Minneapolis, MN. 55402

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The factors supporting this rating include:

- The bank's average loan-to-deposit (LTD) ratio is reasonable.
- The bank originates a majority of its loans within its assessment area (AA).
- Lending to borrowers of different incomes is excellent.
- Lending to borrowers in different income level census tracts is excellent.

SCOPE OF EXAMINATION

We evaluated The First National Bank of Walker's (FNB) Community Reinvestment Act performance. As part of this process, we evaluated the bank's loan data for the time period beginning January 1, 2008 through December 31, 2009. Based on loan originations from this time period, residential real estate loans totaled 56.54% of total loan originations by dollar volume and 22.76% by number. Consumer loans totaled 9.17% by dollar volume and 64.41% by number. We selected a random sample of 20 loans from each of these product types to complete our evaluation.

DESCRIPTION OF INSTITUTION

The First National Bank of Walker (FNB) is a \$272 million bank headquartered in Walker, MN. The bank is 100% owned by Walker Ban Co., a two-bank holding company located in Walker, MN. FNB has branches located in nearby Akeley, Backus, Hackensack and Longville. The bank owns 12 automatic teller machines (ATMs); six located at branch offices and six located at retail businesses. Deposit-taking services are provided at two of the ATMs located at branch offices.

FNB is a rural bank that offers traditional banking products and services. As of December 31, 2009, the bank's net loans and leases totaled \$192 million or 70% of total assets. The loan portfolio consists of commercial loans (47.8%), residential loans (46.3%), consumer loans (5.5%), and agricultural loans (0.4%).

FNB received a rating of Outstanding at the last CRA examination dated October 14, 2003. There are no legal, financial, or other factors that impede the bank's ability to meet the credit needs in the AA.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes eight contiguous census tracts located in Cass and Hubbard County. The AA consists of two moderate- and six middle-income census tracts. There are no low- or upper-income census tracts. The AA meets the requirements of the CRA

regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

US Census Bureau estimates from 2008 showed an AA population of 21,810 and 9,060 households. According to the U.S. Bureau of Labor Statistics, the December 31, 2009 unemployment rate was 11.6% for Cass County and 10.1% for Hubbard. These rates are higher than Minnesota’s average unemployment rate of 7.4%. The national unemployment rate at yearend 2009 was 10.0%. Poverty levels in the AA are high with 12.3% of households and 8.5% of families below the poverty level according to 2000 US Census information.

The bank’s AA is dependent on small business operations. Employment opportunities include the school district, gambling industry, small manufacturing, and health care providers. The area also experiences a significant amount of seasonal tourism due to its proximity to Leech Lake.

The bank’s main competitors include three community banks located in Walker, MN. Other competition includes several community banks operating in or bordering the bank’s AA. FNB has the highest deposit volume compared to other competitor banks with a 29.12% deposit market share in Cass and Hubbard County, according to the FDIC Deposit Market Share Report as of June 30, 2009.

We contacted a city official to better understand the credit needs of the AA. Based on this information, we determined that residential real estate and small business loans help support the local economy. The contact stated that local financial institutions continue to respond well to meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The FNB of Walker’s quarterly average loan-to-deposit (LTD) ratio is reasonable based on the bank’s financial capacity, lending opportunities available in the AA, and comparison to similarly situated institutions. From September 30, 2003 to September 30, 2009, the bank’s quarterly LTD ranged from 75% to 90% and averaged 84%.

The FNB of Walker’s average quarterly LTD ratio is reasonable despite being below that of three other similarly situated banks. Similarly situated banks are defined as those with a majority of their offices located in the AA and asset sizes ranging from \$103 million to \$301 million. The three similarly situated banks had quarterly net LTD ratios ranging from 76% to 116% over the same time period. FNB’s LTD ratio has remained relatively consistent throughout the assessment period and is reflective of the bank’s conservative lending strategy. The FNB of Walker has the largest deposit market share at 29% of the 12 institutions located in Cass and Hubbard County.

Institution	Assets	Quarterly Average
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	(as of 9/30/09)	LTD Ratio
American National Bank of Minnesota	\$301 million	108.6%
Northwoods Bank of Minnesota	\$125 million	93.0%
Woodland Bank	\$103 million	87.9%
The First National Bank of Walker	\$274 million	83.7%

Source: FFIEC.gov

Lending in Assessment Area

The bank originates a majority of its loans within the AA. Of the 20 residential real estate loans and 20 consumer loans sampled, the bank originated 88% of those loans by number and 81% by dollar amount within the AA. The following table summarizes the bank's lending activity within the AA during the evaluation period.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	18	90.00%	2	10.00%	20	1,596,343	80.20%	393,000	19.80%	100%
Consumer	17	85.00%	3	15.00%	20	58,000	92.00%	5,014	8.00%	100%
Totals	35	87.50%	5	12.50%	40	1,654,343	80.60%	398,014	19.40%	100%

Source: Loan Sample

Lending to Borrowers of Different Incomes

The bank's lending to borrowers of different incomes has excellent penetration. Residential real estate and consumer lending is excellent and exceeds the demographic information for low- and moderate-income borrowers.

Residential Real Estate Loans

Residential real estate lending in the AA is excellent. The following chart illustrates that the bank exceeds the demographics for both low- and moderate-income families. In addition, nearly 9% of families are below the poverty level. These borrowers have a higher degree of difficulty qualifying for credit.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate	22.77	25.00	23.62	30.00	25.22	25.00	28.39	20.00

Source: Loan Sample, 2000 US Census Data

Consumer Loans

Consumer lending in the AA is excellent. The following chart illustrates that the bank significantly exceeds the demographics for low- and moderate-income households, especially when factoring in the 12% poverty rate among households in the AA. These borrowers have a higher degree of difficulty in qualifying for credit.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	26.49	30.00	19.26	20.00	21.57	35.00	32.68	15.00

Source: Loan Sample, 2000 US Census Data

Geographic Distribution of Loans

The bank’s lending to borrowers in different income level census tracts has excellent dispersion. Residential real estate and consumer lending significantly exceeds the demographic information.

Residential Real Estate

Residential real estate lending in moderate-income level census tracts in the AA is excellent. The following chart illustrates that the bank significantly exceeds the demographics for moderate-income owner occupied units in the AA.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Units	% of Number of Loans	% of AA Units	% of Number of Loans	% of AA Units	% of Number of Loans	% of AA Units	% of Number of Loans
Residential Real Estate	0.00	0.00	20.78	50.00	79.22	50.00	0.00	0.00

Consumer Loans

Consumer lending in moderate-income level census tracts in the AA is excellent. The following chart illustrates that the bank significantly exceeds the demographics for moderate-income households in the AA.

Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	20.02	60.00	79.98	40.00	0.00	0.00

Responses to Complaints

No CRA related complaints have been reported since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.